Postal Regulatory Commission
Submitted 2/20/2020 4:02:01 PM
Filing ID: 112446
Accepted 2/20/2020

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2019

Docket No. ACR2019

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 15

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 15, issued on February 13, 2020. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 20, 2020

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 15**

1. In response to Docket No. ACR2018, CHIR No. 5, question 8,[1] the Postal Service stated that there was no data maintained on the frequency of second runs, where a city carrier's route must be traversed a second time in order to deliver overflow volumes (including situations where the overflow volumes are solely or primarily parcel volumes), which are then classified as letter route costs.[2]

a. Given the opportunity for improvement acknowledged by the Commission,[3] and notwithstanding the changes to the attribution of measured Special Purpose Routes (SPRs) costs resulting from Docket No. RM2019-6, has the Postal Service made any progress to date in attempting to measure the prevalence of second runs? If so, please describe such efforts in detail.

b. Please describe any future plans the Postal Service has to ensure that hours spent by carriers on second runs that are incorrectly clocked as regular delivery time will be clocked to SPRs, or otherwise recorded as second runs.

RESPONSE:

a. The Postal Service has not made an attempt to measure the prevalence of second runs.

b. The Postal Service has no current plans to attempt to measure the prevalence of second runs. Outside of general training to ensure that carriers are clocked into correct operations, the Postal Service has no plans to enact specific training regarding clocking procedures for second runs.

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[1] Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-12 of Chairman's Information Request No. 5, February 5, 2019.

[2] Docket No. RM2017-9, Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman's Information Request No. 1, August 9, 2017, question 15 b. ("The workhours associated with any remaining parcels delivered as part of a second run would be classified as letter route costs.").

[3] Docket No. ACR2018, Annual Compliance Determination Report, April 12, 2019, at 123.

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 15

2. Please describe how the Postal Service attributes depreciation costs associated with the Enhanced Package Processing System.

a. How large were these depreciation costs in FY 2019?

b. Please indicate the shares of these costs that are attributed, respectively, to Competitive Domestic Mail and Services, Competitive International, and Market Dominant Mail and Services.

c. Lastly, what share is treated as Institutional Costs?

RESPONSE:

a. There were no depreciation costs for the Enhanced Package Processing System (EPPS) machines in FY 2019, because these machines are still in the testing phase and have not yet been capitalized.

b. Since there were no depreciation costs for FY 2019, this question is not applicable. However, once these machines are accepted by the Postal Service and capitalized, the depreciation costs likely will be included in Equipment Group 13 (APBS/APPS) and will be distributed to products according to the same distribution key used for depreciation costs for that equipment group. In FY 2019, 67 percent of volume variable depreciation costs for the APBS/APPS equipment group were attributed to Domestic Competitive products, 15 percent were attributed to International products, and 18 percent were attributed to Market Dominant products. (See USPS-FY19-31, FY19Public.FRpt.xlsx, tab "CS98.2.") Of the 15 percent that went to International products, 11 percent were distributed to International Market Dominant products and 4 percent were distributed to International Competitive products.

c. Since there were no depreciation costs for FY 2019, this question is not applicable. However, once these machines are capitalized, the depreciation costs will likely receive the same variability as the depreciation costs currently in the APBS/APPS equipment group. In FY 2019, this variability was 97.5 percent. (See USPS-FY19-31, FY19Public.FRpt.xlsx, tab "CS98.2.")

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 15

3. Please refer to Library References USPS-FY19-1, December 27, 2019, and Library Reference USPS-FY19-2, December 27, 2019.

a. In Docket No. ACR2019, "Other Costs" are reported as $35.199 billion in Library Reference USPS-FY19-1 and $36.746 billion in Library Reference USPS-FY19-2. Please confirm that the $1.547 billion difference in institutional costs between USPS-LR-1 and USPS-LR-2 is driven by and equal to the sum of Group Specific and Group Inframarginal Costs[4] as well as Final Adjustments[5] for Total Domestic Competitive, Total Domestic Market Dominant, and Total International Costs.[6]

b. Please confirm that International Group Specific Costs ($68.3 million in FY 2019) are treated as International Product Specific Costs in the Cost Segments and Components Report (USPS-FY19-LR2).

c. Please explain why Product Specific Costs for "Total All Mail and Services" from USPS-FY19-1[7] exclude $68.3 million in International Group Specific Costs while "TOTAL VOL VAR & PROD SPEC" costs from USPS-FY19-2[8] appears to include the $68.3 million.

RESPONSE:

a. Confirmed.

b. Confirmed that the indicated amount for International Group Specific Costs is included in the amount shown in the column for "Total Vol Var and Prod Spec" in the International Mail and Services row (i.e., cell T56) in the CSSummary tab of USPS-FY19-2. Those costs, however, are not "treated" as International Product

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4 USPS-FY19-LR1, Public_FY19CRA_Expanded.xlsx.

5 USPS-FY19-LR31, FY19Public.DRpt.xlsx.

6 $1.547B = $44.920B Total Attributable Cost [Cell F108] – (43.014 Total VVC [Cell H108] + $0.275B Total PS [Cell J108 + Cell N107] + $0.084B Total Vol Var & Prod Spec Final Adjustment [Cell D64]). All cell references in above calculation are to USPS-FY19-LR1, FY19CRA_Expanded.xlsx except for the Final Adjustment, which can be found in USPS-FY19-LR31, FY19Public.DRpt.xlsx.

7 USPS-FY19-LR1, Public_FY19CRA_Expanded.xlsx.

8 USPS-FY19-2, FY19Public Cost Segs and Comps.xlsx

Specific Costs in the sense that they are not attributed to any individual product in the manner that product specific costs are generally treated.

c. The Expanded CRA file submitted as part of USPS-FY19-1 and cited in the question was introduced in ACR folder 1 in FY 2018 in light of the changes in cost attribution emanating from Order No. 3506 in Docket No. RM2016-2. One purpose for the introduction of this file was to facilitate verification of the calculation of Total Attributable Costs using each of the components identified by the Commission on page 10 of the FY 2017 ACD (March 29, 2018). (As explained in footnote 7 on page 6 of the Preface to USPS-FY18-1, although the sixth component on page 10 of the FY 2017 ACD was identified as the inframarginal cost for international mail collectively, the supporting Excel files clarified that this sixth component should actually be the Group Specific Costs of international mail collectively, as identified in the ICRA.) Therefore, to fulfill this purpose, it is necessary in the Expanded CRA file to segregate International Group Specific Costs from any other category (such as Product Specific Costs).

In contrast, the format of the Cost Segments and Components Report (submitted this year as USPS-FY19-2) has not been altered in response to any of the Order No. 3506 changes. Historically, the International Mail row in the CSSummary tab of the Cost Segments and Components Report accounts for the costs of International Mail, such that, in that row, the total costs shown in the summary column T reflect the total international costs addressed in the ICRA. For that purpose, it was not deemed necessary to make any attempt to distinguish Group Specific international mail costs from Product Specific international mail costs, and thus the Cost Segments and Components Report has not made that distinction. Moreover, the rationale for this approach becomes even more compelling in light of the sequence of events in ACR preparation. International Product Specific Costs and International Group Specific Costs are only separately identified during development of the ICRA, a task which itself occurs after completion of the Cost Segments and Components Report.

4. In ACR2017, in response to Chairman's Information Request No. 8, the Postal Service indicated four reasons underlying the "Final Adjustments" in the FY17Public.DRpt.xlsx file contained in USPS-FY17-31.[9]

a. Please indicate which of these adjustments still pertain and underlie the adjustments in the corresponding file in the current ACR docket.

b. Please describe any additional reasons for the Final Adjustments in Column D of FY19Public.DRpt.xlsx file contained in USPS-FY19-31.

c. Please provide a breakdown of Column D, specifying the Final Adjustment amount associated with each of the reasons listed in your responses to parts a) and b) of this question.

RESPONSE:

a. All four adjustments outlined in the ACR2017 response to Chairman's Information Request No. 8 still pertain in the ACR2019. For convenience they are restated below:

1) In Marketing Mail, the costing systems (CCS, IOCS, TRACS) count USPS Marketing Mail High Density and Saturation letter-shaped mail that pays flat rates as High Density and Saturation Letters, while RPW reports this mail as High Density and Saturation Flats. The final adjustment moves cost from High Density and Saturation Letters to High Density and Saturation Flats, based on the proportion of letter pieces that pay flats rates, developed from file FCM_MM_WGTI_FY19_EOY_V.xlsx in USPS-FY19-14. This adjustment was first summarized in the Preface to the Public CRA Report in USPS-FY08-1.

2) Costs for market dominant and competitive negotiated service agreements (NSAs) are calculated in USPS-FY19-30 and USPS-FY19-NP27, respectively. Final adjustments move cost out of the base mail class and out of institutional cost into the NSA class.

3) Costs for market dominant and competitive special services are developed in cost models filed in USPS-FY19-28 and USPS-FY19-NP26, respectively. In most cases, the cost assigned to the special service is pulled out of

[9] Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 8, January 29, 2018, question 7.

institutional cost. For Address Management Services, costs are moved from market dominant to competitive. For Post Office Boxes, the final adjustment moves costs from market dominant to both competitive and to institutional, based on the proportion of competitive Post Office Boxes and the proportion of Post Office Boxes that are provided as a free service in offices that do not have carrier delivery. The Post Office Box final adjustment was introduced in Docket No. ACR2010 (see USPS-FY10-31), but the methodology used to compute Competitive Post Office Box costs has been improved since then (see , Order No. 2076 at 6-10, May 8, 2014).

4) Costs for USPS Mail are moved to institutional, following the established methodology for the treatment of those costs.

b. There are no additional reasons for Final Adjustments in column D of the FY19Public.DRpt.xlsx file contained in USPS-FY19-31.

c. See the workbook electronically attached to this response which specifies the Final Adjustment amount associated with each reason, categorized numerically to reflect the list provided in response to part a of this question. A corresponding non-public version of this workbook is filed under seal in USPS-FY19-NP41.

5. The Postal Service's 10-K Form for 2019 reports that the Postal Service "purchased approximately 4,000 new vehicles to add to our fleet during 2019, at a cost of approximately $289 million."

a. Please provide an inventory of the type, including cubic footage, and intended purpose, of the 4,000 vehicles purchased in FY 2019.

b. Please describe how the depreciation associated with these new vehicles (as opposed to the entire fleet, which is summarized in component 20.2) is attributed to products. Specifically, what share is attributed to market dominant products, what share is attributed to competitive products, and what share is treated as institutional?

RESPONSE:

a. The following table contains the vehicle type, quantity, cubic foot capacity (if applicable), and intended purpose of the 4,052 vehicles purchased in FY 2019.

Vehicle Type	Quantity	Capacity (Cubic Ft)	Intended Use
1 Ton Promaster	1,576	353	Mixed Delivery Vehicle
11-Ton Peterbilt Cargo Van	1,011	1,137	Postal Vehicle Service van to transport mail
7-Ton Peterbilt Cargo Van	706	878	Postal Vehicle Service van to transport mail
TRC International	535	Dependent on Trailer	Postal Vehicle Service vehicle for transporting mail hauling trailers
Inspection Service	224	N/A	Inspection Service vehicles for use in administrative and law enforcement activities
Total	**4,052**		

b. The treatment of depreciation expenses associated with the vehicles purchased in FY 2019 was the following: 29 percent of costs were attributed to Market Dominant products; 26 percent were attributed to Competitive products; and 45 percent were treated as institutional costs.